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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:

The Allowance for Funds Used
During Construction Rate Properly
Charged by Dominant Carriers for
Ratemaking and Other Purposes

RM-7626

COMMENTS
OF THE
UNITED STATES TELEPHONE ASSOCIATION

The United States Telephone Association (USTA) respectfully submits its comments regarding the Petition for Rulemaking filed by the Ameritech Operating Companies on January 11, 1991 in the above-referenced matter. USTA is the principal trade association of the exchange carrier industry. Its membership of approximately 1100 telephone companies provides over 98 percent of the telephone company-provided local access lines.

USTA supports the initiation of a rulemaking proceeding to revisit the issue of determining the appropriate Allowance for Funds Used During Construction (AFUDC) rate to be used for Part 65 ratemaking and Part 32 accounting purposes. This issue has not been examined since 1978, when the Commission decided that the use of the prime rate of interest was sufficient for ratemaking purposes based on its finding that AT&T could finance its construction with short term debt which AT&T was able to

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borrow at the prime rate.¹ In the recent rate base proceeding, the Commission determined that the AFUDC rate was not properly at issue.² Telephone company financing of construction programs has changed since 1978. Financing for long term construction programs is principally through internally-generated funds.

Internally-generated funds use a combination of depreciation and net income. The internally-generated funds are either reinvested in the business or paid out in dividends, with reinvested funds entitled to a full return. If the prime rate is less than the overall cost of capital, and long term plant under construction and related AFUDC are not included in the revenue requirement, the total cost of funds used for construction will not be realized. As a result, the opportunity to recover the total cost is denied and investors are not fully compensated for the use of their funds.

The Commission should explore alternative means which will ensure that carriers can recover the full costs of construction. Therefore, USTA urges the Commission to initiate a rulemaking proceeding on this issue.

¹ AT&T Charges for Interstate Services, 64 FCC 2d 1 (1977), recon. 67 FCC 2d 1429 (1978).

² Amendment of Part 65 of the Commission's Rules to Prescribe Components of the Rate Base and Net Income of Dominant Carriers, 3 FCC Rcd 269, 273 (1987), recon. 4 FCC Rcd 1697, 1703 (1989).

Respectfully submitted,

UNITED STATES TELEPHONE ASSOCIATION

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